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SUBJECT: KUWAIT FORMS HIGH-LEVEL IAWG TO EXPLOIT GOVERNMENT AND PRIVATE-SECTOR DEVELOPMENT OPPORTUNITIES IN IRAQ

REF: A. KUWAIT 3266

[1](#)B. STATE 206458

[1](#)1. Summary. Kuwait has inaugurated a high-level interagency working group to coordinate government and private sector programs for participation in the reconstruction of Iraq. Embassy and GOK interlocutors see this development as an excellent opportunity to promote the economic and regulatory reforms essential to attracting non-energy related investment to Kuwait. End Summary.

[1](#)2. Ref B note verbale invited the GOK to designate a representative for appointment to the Council for International Cooperation (CIC) in Iraq. CIC was created 17 June under Regulation No. 5 issued by the Administrator of the Coalition Provisional Authority (CPA) to facilitate greater international involvement in the CPA,s funding and operations.

[1](#)3. Embassy strongly endorses CPA,s decision for Kuwaiti participation in the CIC. We view that offer as perhaps an important opening for the sui generis economic reform we push for in Kuwait as well as a useful tool in our post-war bilateral political kit. In the weeks prior to the CPA,s 17 July formal request, EconChief met with key private sector and government officials at the working and policy levels who then already were evaluating the potential for Kuwaiti collaboration with the CPA in Iraq.

[1](#)4. The concept of direct, private-sector Kuwaiti involvement we have promoted has resonated nicely at our post-election meetings with such interlocutors as Minister of Finance Mahmoud Al-Nouri; Ministry of Finance Asst. U/S for Economic Affairs Mustafa Al-Shamali; Ministry of Finance Asst. U/S for Financial Affairs Fawzi Al-Qassar; Higher Committee for Economic Development and Reform Secretary General Fawzi Al-Sultan; Kuwait Investment Authority Managing Director Ahmad Bastaki; Central Bank Manager for Inspections and Licensing Yaqoub Al-Ebrahim; Mr. Waleed Al-Humaidhi, member, Kuwaiti Chamber of Commerce and Industry. Indeed, very senior members of the new 5 July government have promoted the idea of considering a market-oriented development plan for Kuwait. In these public discussions, private sector opportunities in Iraq frequently have surfaced as a potential vehicle for such reform.

[1](#)5. Kuwait,s continuing behind-the-scenes action and interest in developing the Iraqi market is substantive and impressive. Several of our para 5 interlocutors played key roles in the GOK,s interagency &brainstorming8 discussions held during May and June to evaluate private sector opportunities in Iraq. By 10 July, the group had been vetted personally by Prime Minister Sheikh Sabah and formally charged with continuing to plan a role for Kuwait,s parastatal and private sector participation in the rebuilding of Iraq. A major impetus for this effort is the \$37.5 billion that the GOK quantifies as the minimum owed Kuwait by Iraq for pre-war loans; GOK oil sales on behalf of Iraq during the Iran/Iraq War; and previously agreed, but still unpaid compensation claims.

[1](#)6. The Kuwaiti IAWG is tentatively titled, Work Team to Support the Construction of Iraq (Work Team). Its institutional members include: the Public Authority for Compensation; Kuwait Investment Authority; Kuwait Petroleum Corporation; Kuwait Fund; the Arab Fund; Kuwait Chamber of Commerce and Industry; Secretariat General of the Higher Committee for Economic Development and Reform. This Work Team has developed under the direction of now Minister of Foreign Affairs/Acting Minister of Social Affairs Sheikh Dr. Mohammed Sabah Al-Salem Al-Sabah who chaired the Team,s first plenary session on 16 June. The Secretariat General of the Higher Committee for Economic Development and Reform (Reform Committee) coordinates Work Team's day-to-day operations effectively.

[1](#)7. EconChief met 16 July with Reform Committee Secretary General Fawzi Al-Sultan, for a read out on the Work Team,s progress. SecGen Fawzi launched into an upbeat staccato presentation, noting that his agency considers the market potential of Iraqi as Kuwait,s &best bet to roll the wheels of economic reform.8 He said it,s the GOK,s official (in public and private) expectation that under CPA,s tutelage, Iraq could emerge from its present troubles a strong,

democratic and market-oriented society. His group had, he noted, debated thoroughly a draft set of strategies on how best to capitalize on an anticipated CPA success in Baghdad.

18. Fawzi concurred that the following areas are ripe for reform in Kuwait: intellectual property rights; greater acceptance/implementation of WTO; tax law transparency with across-the-board equality in treatment; expedited administrative procedures for imports, exports and company registrations; and streamlined licensing regimes. He agreed that a suitable framework for addressing these issues deliberately could start at the working level with renewed discussions on Double Taxation, BIT and TIFA agreements.

19. Fawzi volunteered that Kuwait's size of the Iraq reconstruction pie necessarily would depend on successful reform of Kuwait's present and trade-inhibiting regulatory structures. He said he would urge GOK to take the necessary steps. (Septel describes our initial meeting with Ministry of Finance officials regarding a Double Taxation Treaty.)

110. The SecGen next listed Iraq market opportunities his team had identified as potentially advantageous to Kuwait in a CPA-regulated trade regime. Even minor successes in these areas, he asserted, would facilitate the task of moving forward on reform:

-- Private Sector: Private security services, transportation/marketing services; catering and food production; mobile telecommunications systems; housing and tourism.

-- Public Sector: Passenger air traffic to Baghdad via Kuwait flag carrier; provision of emergency medical services; police training; development of border security regime; integration of Kuwait/Iraq power grids for load-sharing; development of a joint port authority; Free-Trade Zones; development of Iraq gas reserves; bank supervision and licensing; securities market and exchange operations.

11. Comment. Publicly and privately, the GOK is making the right sounds and moving in the right direction with intent and deliberation it seems. How committed domestic power brokers are to the substantial reform needed to make Kuwait more attractive for investors and competitive in non-energy industry remains unclear, however. In our conversations with knowledgeable sources, we hear that much will depend on the reception the GOK and Kuwaiti private sector entrepreneurs receive in Baghdad. Some national pride, and a lot of money will be riding on the efforts of the Work Team to Support the Construction of Iraq. Kuwaitis are concerned that changes in the U.N. compensation fund, a re-structuring of payments on Iraqi's debt to Kuwait and anticipated Kuwaiti contributions to a donor countries, reconstruction program for Iraq, will affect Kuwait adversely. In compensation, Kuwait can be expected to seek a major role for its private sector and parastatals in rebuilding Iraq. End Comment.

112. Minimize considered.
JONES